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SUBJECT: LESOTHO: GOL DISCUSSES TRADE COMPLEXITIES FACING LDC'S

MASERU 00000072 001.2 OF 002

¶1. (U) SUMMARY. Government of Lesotho (GOL) officials and local business leaders discussed a range of national economic challenges publicly and in private meetings with Ambassador Nolan, Charge, Deputy USTR Ambassador Allgeier, and AUSTR Liser prior to, and on the margins of, a February 27-29 Least Developed Countries (LDC) Trade Ministerial Meeting in Maseru. Lesotho's Prime Minister, Trade Minister, and others discussed the country's international negotiating position, supply side constraints, increased competition and declining foreign orders in the textile sector, potential loss of tax revenue, and lack of diversification. When coupled with the recent revelation that a major U.S. retailer (Target) would eliminate its Lesotho-based orders by 2009, the messages constituted a sobering reminder of the complexities facing Lesotho and other LDCs in benefiting from the current trading system and preference programs like AGOA, as well as future opportunities resulting from the Doha Development Agenda Round (DDA) talks. END SUMMARY.

Mosisili Sets the Tone

¶2. (U) Lesotho Prime Minister Pakalitha Mosisili inaugurated the Least Developed Countries (LDCs) Ministerial Meeting on February 28 by declaring that LDCs share many of the same challenges and opportunities, despite the diverse mix of nations that comprise the LDC trade-negotiation block. Mosisili listed a number of hurdles - such as external debt and lack of private sector development - as common to most LDCs, and he called on the LDC trade representatives to negotiate common positions which directly addressed the unique needs and aspirations of LDCs.

¶3. (U) Offering Lesotho as a specific example of a typical LDC, PM Mosisili cited a number of challenges including the potential loss of revenue due to tariff cuts, a lack of industrial diversification, and a low national savings rate. He also highlighted a recent rise in food prices as a significant problem for net food importers such as Lesotho. The Prime Minister concluded by drawing attention to Lesotho's eventual goal - achieving full integration into the worldwide trading system; a difficult challenge, according to Mosisili, due to supply-side constraints and other limitations.

"Serious Problems Ahead"

¶4. (SBU) Ambassador Nolan called on Trade Minister Lebesa on February 25 in order to discuss general trade issues in advance of the LDC Ministerial Meeting. In the course of the discussion, Lebesa revealed a letter written by the U.S. retailer Target to the CGM Industrial Corporation, one of Lesotho's largest textile manufacturers. According to the letter, Target was withdrawing from Lesotho due to "political instability," comparing the situation in Lesotho to Kenya or Pakistan. Lebesa vigorously protested Target's assessment, complaining that such an inaccurate characterization could give other companies pause in filling orders from Lesotho. The letter's message notwithstanding, Lebesa labeled lower labor costs in competitive nations as the true motivation for Target's pullout.

¶5. (SBU) During a private meeting with D/USTR Ambassador Allgeier (joined by Charge, AUSTR Liser, and econoff) on February 27, Lesotho Trade Minister Popane Lebesa expanded on the issues he had raised with Ambassador Nolan, warning that he saw "serious problems ahead." The reasons, according to Lebesa, were many fold: supply-side constraints, potential losses in customs tax revenue due to lower tariffs (expected to comprise 60% of total national revenue in 2008), and significantly increased competition in the textiles sector from lower labor-cost countries such as India and Bangladesh. Not uniformly downbeat, Lebesa sounded a note of optimism regarding the LDC Maseru Ministerial meeting and potentially subsequent benefits for Lesotho. However, the point delivered was clear: Lesotho faced significant obstacles and greatly appreciated any/all U.S. support.

¶6. (SBU) Lebesa expressed ambivalence when referring to Lesotho's membership in the Southern African Customs Union (SACU). On one hand, he admitted, membership in SACU brought the Kingdom significant benefits, including redistributed customs revenue. However, according to Lebesa, SACU also represented Lesotho's difficult balancing act because of commitments to the Union. Lebesa described Lesotho as "not completely independent," needing to consult with middle income

nations before establishing its position. Responding to Ambassador Allgeier's statement that true revenue-sharing customs unions like SACU called for unique solutions, Lebesa stated that he was pleased to hear that the U.S. was "looking for solutions."

¶7. (SBU) Lebesa also voiced significant concern about the Lesotho textile industry, which comprise about 40 percent of GDP, according to some estimates. After highlighting the extreme disparity in labor costs between Lesotho and Bangladesh (some in Maseru argue that salaries are up to 10 times higher in Lesotho), Lebesa reiterated the concerns about Target he had raised earlier in the week with Ambassador Nolan (para 4).

CGM Factory Visit

¶8. (U) One of southern Africa's largest textile manufacturers, CGM Industrial is a standard-bearer for Lesotho's economic fortunes following the implementation of the African Growth and Opportunity Act (AGOA), which provides duty-free export potential to the U.S. market for Sub-Saharan Africa. (NOTE: Lesotho's textile and apparel exports under AGOA currently account for 86 percent of its total exports to the United States. END NOTE.) Although CGM first established itself as a supplier to major U.S. based retailers over 20 years ago - long before AGOA - orders for the company surged under AGOA until 2004, dropping since then due to increased global competition from the end of global apparel quotas and the anticipated end of AGOA third-country fabric provisions, according to Krish Moodley, Production Director at the primary Maseru plant. During a factory site tour attended by D/USTR Allgeier, AUSTR Liser, and Embassy Maseru representatives, Moodley explained

that CGM was forced to reduce its employment rolls from 10,000 to 6,500 since 2004 due to declining orders.

¶9. (U) Moodley indicated to the USTR delegation that while the recent Target letter announcing the termination of Lesotho orders was significant, though wholly inaccurate regarding the domestic political situation, it was also representative of a larger problem. Moodley cited various reasons buyers regularly provided for ceasing business with CGM, including longer product lead times, higher material prices, and political instability. However, Moodley opined that lower labor costs in countries like Bangladesh and Cambodia more accurately explained the pullbacks. Anticipating this trend to continue, Moodley stated that CGM was examining the European market as well as organizing an industry delegation to lobby U.S. based stakeholders.

COMMENT

¶10. (SBU) While GOL and private sector leaders in Lesotho recognize the opportunity offered by the DDA, there is a palpable sense of insecurity regarding Lesotho's economic prospects. The principal forces driving this sentiment - difficult challenges in the textile sector, the possible loss of customs tax revenue, a lack of foreign and domestic investment - are unlikely to change substantially in the near term.

¶11. With respect to the LDC Maseru Declaration (February 28) and the ongoing DDA talks, Lesotho faces a difficult balancing act. Leaders here clearly recognize the benefits of free trade and multilateral solutions, and support the Declaration's central goal of greater integration of LDCs. However, it is recognized that implementation of the DDA's Duty Free Quota Free (DFQF) initiative may exacerbate Lesotho's economic difficulties. In Lesotho - and possibly other small LDCs - where the closure of one textile factory could swell the unemployment rolls by as much as 15 percent, domestic policy-makers are seeking nuanced solutions that they view as critical for ensuring continued political and economic stability. END COMMENT.

¶12. (U) This cable has been cleared by USTR.
NOLAN